

International Accounting Standards

Challenges confronting actuaries in
“developing” countries

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Session 79

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Overview

- IAS Objective:

Develop a single set of global accounting standards that provide useful, understandable and comparable information in financial statements, thereby helping participants in the world's capital markets make sound decisions.

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Overview

- Goal:
“...capital markets be able to use a common language...”
- Direction:
“...Toward fair value or fair value like...”

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Overview

- Timeframe:

The European Commission has mandated that by 2005 all companies with shares trading on markets within the European Union (including UK) must report using IASB standards.

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Overview

- Timeframe:

This requirement may also be extended to all financial Institutions operating in the European Union, even those not listed.

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Challenges

It has been said:

“Implementation of the new DSOP reporting framework will be a major challenge, surpassed in difficulty only by...”

“...The challenge of explaining reported earnings after the new principles are implemented.”

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Some issues

- Fair value: amount an insurer would need to pay a third party to assume the liability in an arms length transaction.

Without a deep market, can this really be measured? Can the markets thoughts be read? How fast can perceptions change?

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Some issues

- Valuation: Options and guarantees contained in contracts should be explicitly valued and reserved for, although it is not necessary to “bifurcate” the contract.
- Option pricing and stochastic valuation techniques, which use random scenarios to project outcomes will be required.

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Some issues

- Market-based adjustment for risk

Fair value should always contain a market-based adjustment for risk. Risk adjustment should be consistent with market-risk preferences.

Are market-risk preferences equal across the globe?

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Some issues

- Pricing: Standards for calculating fair value are not necessarily consistent with actual market pricing.

There is the possibility of material gains or losses when products are issued.

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Some issues

- Disclosures:

Requirements are voluminous and burdensome

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Business Implications

- Increased financial volatility
- Forecasting challenges
- Tighter matching of assets and liabilities
- Pricing and product design
- Valuation procedures and pressures
- Skilled staff

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